AVJennings Limited

Investor Briefing Presentation Speaker Notes
(to be read in conjunction with the FY21 Results Presentation released to the market on Thursday, 19 August 2021)

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FY21 Results Presentation:

Welcome all to this investor briefing in relation to the AVJennings 2021 Financial Year Results which were announced to the market earlier today. Along with our results we have also released an Investor Briefing presentation today and we will be sharing that document on screen.

Housing Matters, Community Matters:

AVJennings' 89th year since its creation in 1932 saw conditions and challenges that continued to be dominated by the impact of the COVID-19 pandemic.

I understand at a results briefing the focus is on the outcomes and numbers. But I think it is worth spending a few minutes on some very important matters that help us understand those outcomes and numbers.

The pandemic was not discriminatory. It was global in reach and a risk to all. The Company was not immune to all of this.

But what became clear very early was that we had some strong positives on which we could draw.

The first was our business model. We have talked to this before the pandemic. To some, at that time it may not have seemed as important. We raised it in terms of how the Company best deals strategically with the realities of property cycles.

We talked to 3 main aspects

1. A focus on traditional housing.
2. A focus on traditional customers.
3. Being diversified across regions.

What became clear very early was that these strategies were going to become even more important in meeting the challenges of the pandemic.

What we do:

The likely growing preference for traditional housing and communities is something that will be addressed later. What has been important to date about our model has been the ability for us to scale down, then scale up, our production given our predominantly horizontal development model. Whilst some restrictions have been in place, generally speaking, construction has continued as an essential service. We have been able to overlay the ability to continue to operate with our priorities around pre-sales.

Geographic & Diverse Portfolio:

Property markets often move in different ways across regions – even within regions. Being diversified across regions has helped the Company mitigate this market risk. These changes across markets haven't gone away. But the pandemic added another significant issue and that has been lockdowns and the impact on regional economies, employment levels, confidence and freedoms to live our lives as we have done in the past.

Customers:

A long-term focus on the traditional customer base has meant we understand our customers, why they buy, why they don't, and when.

Slide 5 shows that we have continued to focus on those traditional customer segments.

Social involvement & community engagement:

There is no doubt our model gave us some useful protection and levers to help manage our way through a very challenging period.

But I think we all know the pandemic has gone beyond just strategy and models. It has made us assess our beliefs, our priorities, what matters most, our courage and resilience, our care for others.

And whilst we talk of what the Company did, what results it achieved, it is the actions of people, from the Board to the leadership team and to every individual who had to decide, under extremely challenging circumstances, their answers to these questions and then back those words with actions.

It is only then that slide 6 comes to life and has true meaning. I am proud to say that the points listed on slide 6 have indeed been lived.

However, before addressing the four points on slide 6, I want to highlight that the first and foremost priority was safety. That was the starting point from which we took other decisions around priorities and actions.

Turning to the 4 areas on slide 6:

1. There was an even greater focus on customers. No doubt understanding our customers helped, but what mattered was care, empathy and a commitment to meeting their expectations.

2. I am privileged to lead a great group of people at AVJennings. Their experience, what they stand for, their care for others; all came to the fore. Pleasingly, our Employee Engagement Survey achieved a higher score than the previous year.

3. For many years we have talked about the importance of relationships and how the Company has been built on so many long-term relationships. During the year, at times this was challenged. Suspending works is not just something measured in impact on AVJennings. We know it also affects so many others. It is why we have tried to the best of our abilities to engage with our partners and stakeholders. We have been transparent in uncertain times, and we have balanced the needs of as many as possible in making decisions.

4. At the heart of our why is Housing Matters, Community Matters. In many cases, our direct contact with our communities had to be curtailed for periods. But we found other ways. We continued to support our community partners. It is just not in our DNA to abandon those who do so much for the community when they are facing some of their toughest times.

Customer feedback:

On slide 7 we try to bring that to life by giving examples of some of our customer feedback. I received more communication from customers this year than I can remember. Most was extremely satisfying. But in a year like we have had, with the restrictions that we faced, mistakes will be made. What has been so pleasing has been the response to address these. That is actually the true test of culture.

What customers really think of AVJennings:

Slide 8 expands this into a word map based on feedback from our latest Customer Insights report. I am pleased to say the outcomes were a further improvement on previous results and feedback.

Our People:

I mentioned a few minutes ago the wonderful AVJennings people. To those shareholders on this call, as you look at some of those people on slide 9, I hope we all take time to reflect on how brilliantly they have represented our Company under extreme challenges.

Community & Trust:

Slide 10 refers to trust. In a year when trust counted for so much more, we were honoured that our customers were willing to put their trust in us.

Community partners:

To our wonderful community partners, we know how much you have struggled through really challenging times. We are proud of what you do and that we have been able to play some part in enabling you to do it.

We believe that Housing Matters & Community Matters:

Before handing to our CFO, Larry Mahaffy, I just want to end this section by stating our ongoing commitment to all aspects of ESG. Right across our business we are looking at ways we can be an even better company.

No, I haven't forgotten this is a results briefing and we will now turn to the results. But in a financial year like the one just ended, it is absolutely relevant to understand the foundations of the Company, across strategy, values, people and brand. It is on these that results are built.

Review of FY21:

Larry, I will hand over to you to take us through the financial results.

Thank you, Peter. Good morning everyone. As you know, in this part of the presentation we summarise and compare key outcomes and performance measures achieved in the year under review against those recorded in prior periods. In doing so this year, we acknowledge that some comparisons may be less meaningful than usual due to changed external circumstances. That said, it's fair to say that the Company is proud of these results given the ongoing challenges that we all face.

Headline numbers:

Slide 14 summarises performance in the year under review and shows, compared with the prior corresponding period, that revenue of $311.1M was up 18.6%, profit before tax of $26.7M was up 102.7% and profit after tax of $18.7M was up 107%. The result includes $2.8M in 'JobKeeper' receipts, absent which expenditure on fixed overheads was stable. Earnings Per Share rose by 107.2% to 4.62 cents per share, while Net Tangible Assets and Net Tangible Assets Per Share both firmed. Average Gross Margin was stable at 22.6% and, following declaration of a final, fully franked dividend of 1.8 cents per share, the total dividend declared for fiscal 2021 rose 108.3% to 2.5 cents per share fully franked. This represents a grossed-up yield of 5.9% based upon the volume weighted average stock price for June 2021 of 60.1366 cents per share.

Dividend:

Slide 15 shows the Company's recent earnings and dividend payout history. AVJennings is sometimes regarded as a yield stock and the Company aims to declare cash dividends equivalent to around 50% of its after-tax earnings in any given financial year - a practice only interrupted in fiscal 2020 because of measures taken to respond to the initial uncertainty associated with the onset of the pandemic in Australia.

Results summary:

Slide 16 depicts revenue rising in line with settlements, which at 905 lots was up 39.4% on the prior corresponding period. Contract Signings, a key indicator of future performance, were well up at 953 lots (having a contract value of $327.7M), compared with 697 lots (with a contract value of $241.2M) in fiscal 2020.

Revenue by region:

Slide 17 indicates that the rise in revenue in fiscal 2021 was well spread across our major regions and, if the extent of lockdowns in Australia abates before December 2021, their contribution is expected to strengthen further in the latter part of fiscal 2022. NSW remains the strongest market in the Company's portfolio and its contribution to turnover in fiscal 2021 was constrained by stock availability as strong demand pulled forward contract signings ahead of production. The investment in land and housing work in progress in NSW is increasing rapidly and we are confident that (all other things being equal) its contribution to revenue will also increase in fiscal 2022.

Product revenue mix:

Slide 18 illustrates that revenue from land-only and apartments grew year-on-year, while that from low-rise housing fell. Around 70% of settled contracts were for land-only. The significant rise in apartments revenue is attributable to the completion and substantial settlement of the 'Empress' building at Waterline Place in Melbourne, comprising 60 apartments of which some 49 had settled by the end of the year, with only eight apartments left unsold. The reduction in housing revenue is a function of timing only, as the number of houses and townhouses under construction increased, with 181 dwellings starting during the year, compared with 132 dwellings in fiscal 2020, and there are plans to increase this further in fiscal 2022. While it takes more capital and an average of seven months to complete a detached house, land is expensive to replace and building on its own account enables the Company to enhance the return by extracting maximum value from a scare resource.

Growth in contracts signed:

Slide 19 illustrates the growth in contract signings over the past three years and notes that 431 of the 953 contracts signed in fiscal 2021 were carried across balance date. Of these, some 402 contracts (having a contract value of around $111M) are expected to settle in fiscal 2022, providing a good start to the current financial year.

Balance Sheet:

Slide 20 summarises the balance sheet, which remains strong, with borrowings well down and NTA up. All bank debt is classified as non-current.

Cash Flow Statement:

Slide 21 indicates the effect of good settlements on the Cash Flow Statement, with strong net cash from operations being applied to further reduce net debt. Pleasingly, after a period of hiatus, this included capital recovered from some lower margin South Australian and Queensland projects in which activity was stimulated during the year. The Company is well placed to continue increasing its investment in work in progress and acquisitions in pursuit of future growth.

Gearing:

Slide 22 shows that gearing is well within the Company's target range of 15-35%, indeed reducing to its lowest level since 2019, at just over 20% of net debt to total assets as at 30 June 2021. The core Club debt facility of $250M, which has existed in much the same form for over 20 years now, next terminates in September 2023. The Company has adequate undrawn banking facilities to fund its objectives and remains compliant with all lending covenants.

Effective land acquisition strategy:

Slide 23 indicates that land under control at balance date was basically stable at 12,180 lot equivalents. There are several exciting acquisition opportunities currently under active consideration, and we are confident that our land inventory will be higher in 12 months than it is today.

Work in progress & completed unsettled inventory:

Slide 24 shows that a sustained, higher rate of contract signings and more building activity translates into higher work in progress, which at 1,537 lot equivalents has recovered much of the ground lost in the earliest phase of the pandemic. We expect to complete around 787 of these lots in fiscal 2022 and aim to improve around 265 of them with low rise dwellings. This slide also indicates that completed unsettled stock reduced from 378 lots in June 2020 (of which 156 were unsold) to 197 lots as at 30 June 2021 (of which 108 were unsold).

I'll now hand back to Peter.

Economic conditions:

Thanks Larry.

As we look forward, we will look at things from 3 aspects

- The general economy
- The state of the residential market
- How AVJennings is placed

Starting with the overall economic conditions, many of us will be in areas subject to lockdowns and you will be dialling into this briefing from home. As a Melburnian I am today experiencing my 200th day in lockdown. Yet for all the challenges of the last year or so, it is fair to say Australia and New Zealand have bounced back well and we remain confident in both economies going forward. This is especially so given the bounce backs we have seen and the recoveries achieved even with borders closed.

I want to emphasise, that is said without downplaying existing lockdowns and the risk of further challenges. Nor is it said forgetting the significant impact on some sections of the economy and those who rely on those sectors. We feel strongly for those people and industries.

Residential sector dynamics entering FY22:

As we moved into 2020, we saw in the early months the signs of a recovery in residential markets such as Sydney and Melbourne after a number of years of subdued activity. We expected this and commented upon it throughout 2019.

The onset of the pandemic challenged these recoveries. But the fundamentals didn't change and as lockdowns eased – even beforehand in some cases – activity levels resumed as did price growth, which reflected stronger market conditions.

The residential sector includes some significant and experienced organisations. It is worth noting that most are actively pursuing new site acquisitions. It can only be assumed this mirrors our confidence in the future direction of residential markets.

With this comes some challenges – unfortunately most aren't new. Affordability is again rising as a challenge, supply is being hampered by the approvals processes and state budgets are yet again looking to increase taxes on property – which ultimately threatens supply and affordability.

In June 2020 the Federal Government announced its HomeBuilder scheme. We were supportive of this at the time as whilst underlying demand was strong, uncertainty was significant. Encouragement was required. Some issues have arisen such as the impact on availability of trades and supplies due to the timeframe compression of the scheme rules. However, overall, the scheme was a success.

Sales momentum at the conclusion of FY21:

As a result of the combination of strong underlying demand and HomeBuilder, after a period of uncertainly, we saw contract signings rise.

Improving sales trajectory continued post HomeBuilder:

But as an important indication of the strength of market fundamentals, it is critical to note that sales momentum continued once HomeBuilder ended. HomeBuilder provided important initial support, but ultimately market fundamentals took over and remain the current and future drivers of residential markets.

AVJennings outlook:

Which brings us to our views on the outlook for AVJennings.

To start, FY21 was a year when, despite early and significant challenges, we were not only able to hold ground, we moved forward in many areas.

We entered FY22 with good pre-sales, increased production levels and a strong balance sheet to continue momentum.

We believe the economic climate for both Australia and New Zealand is looking positive and the fundamentals for residential property are also positive.

In terms of the markets in which we operate, we believe our focus on traditional customers in traditional communities will be a positive factor. We are already seeing a preference for more space, both inside and outside, as well as a greater sense of community. No doubt the increase in time working from home and less time commuting is playing a significant role in this change.

Of course, we are fully aware the challenges are not over. In the short term we are facing continuing lockdowns and restrictions. The closure of international borders is into its second year. We will continue to react to whatever challenges come up.

Longer term, we remain very confident in the futures of Australia and New Zealand and the residential markets in particular.

But what gives me the greatest confidence is what I talked to at the very start. A belief in our strategies, our culture, the strong relationships we have created, our commitment to why exist – Housing Matters, Communities Matter. And especially our people - what they stand for as well as their experience and expertise.

As we head towards our 90th year in 2022, we can proudly look back on the first 89 years. Those years have seen the Company not only survive, but prosper, through recessions, wars and now a global pandemic. Indeed the Company was founded in 1932, during the Great Depression.

And we can look forward confidently to the future, knowing we have built on the legacy that past has created.

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